

Message Text

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ACTION PM-04

INFO OCT-01 ARA-06 ISO-00 EB-07 CIAE-00 INR-07 NSAE-00

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 6750

SECDEF WASHDC

INFO JCS WASHDC

USCINCSO QUARRY HEIGHTS CZ

CSA WASHDC

CNO WASHDC

CSAF WASHDC

CHMN USDEL JBUSMC RIO DE JANEIRO

CH USSAG RIO DE JANEIRO

C O N F I D E N T I A L BRASILIA 6098

SECDEF FOR ISA/DSAA

E.O. 11652: GDS

TAGS: MASS, BR

SUBJECT: SALE OF REVERSIONARY RIGHTS

(A) CHUSDEL/COMUSMILGP MSG 16 2300Z MAR 76

(B) CHUSDEL/COMUSMILGP MSG 13 2103Z APR 76

(C) SECDEF/ISA(SA)/DSAA (T-S) MSG 21 2102Z APR 76

1. REFERENCE B REPORTED RESULTS OF JBUSMC MEETING REGARDING BRAZILIAN ARMY OFFER OF \$100,000 FOR REVERSIONARY RIGHTS TO MAP PROVIDED EQUIPMENT WHICH IT WISHED TO RETAIN.

2. REFERENCE C INDICATED THAT MINIMUM ACCEPTABLE FIGURE WOULD BE SCRAP VALUE OF THE EQUIPMENT AND THAT THERE WAS NO LATITUDE IN REQUIREMENT FOR UNITED STATES AUTHORIZATION PRIOR TO THIRD COUNTRY TRANSFER OF MAP EQUIPMENT.

3. ON APRIL 20 THE BRAZILIAN ARMY REPRESENTATIVE OF JBUSMC
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FORMALLY REITERATED THE \$100,000 OFFER AND PROVIDED BRAZILIAN ARMY

RATIONALE WHICH EMPHASIZED DESIRE TO RESOLVE MUTUAL ACCOUNTING PROBLEM, THE OBSOLESCENCE AND WIDE DISPERSION OF THE EQUIPMENT AND THE CURRENTLY DIFFICULT ARMY BUDGETARY PROBLEMS.

4. UPON RECEIPT OF REFERENCE C AND IN LIGHT OF DOUBTS EXPRESSED BY BRAZILIAN DELEGATION DURING JBUSMC MEETING AS TO VALIDITY OF UNITED STATES ESTIMATED LOW OF \$430K AS SCRAP AND AN ESTIMATED HIGH OF \$624K AS MIMEX SALE, THE USSAG BEGAN A REVIEW OF ITS ESTIMATED VALUES OF THE MAP-M. (NOTE: A SLIGHTLY HIGHER VALUE BASED ON FRG SALE OF REVERSIONARY RIGHTS WAS DISCARDED AS NOT BEING RELEVANT TO BRAZIL CASE.) IT SHOULD BE EMPHASIZED THAT SHORT OF A TIME CONSUMING AND COSTLY PHYSICAL EXAMINATION, IT IS VIRTUALLY IMPOSSIBLE TO ESTABLISH AN ACCURATE ESTIMATE OF THE VALUE OF THE MAP-M IN QUESTION. THE ORIGINAL USSAG SCRAP ESTIMATE WAS BASED ON AN ARBITRARY ASSUMPTION THAT 50 PERCENT OF THE EQUIPMENT WAS IN AREAS WHICH WOULD PERMIT ECONOMICALLY FEASIBLE RECOVERY FOR SCRAP PURPOSES.

5. ON MAY 1 THE BRAZILIAN ARMY TURNED OVER THE EQUIVALENT OF APPROXIMATELY \$80K TO THE UNITED STATES AS PROCEEDS FROM \$9.1M OF MAP EQUIPMENT WHICH IT HAD BEEN AUTHORIZED TO DISPOSE OF LOCALLY. THE BULK OF THE EQUIPMENT SOLD WAS UNSERVICEABLE HEAVY ENGINEER EQUIPMENT WHICH HAS RELATIVELY HIGH RESALE VALUE AND THE EQUIPMENT WAS LOCATED IN SUCH AREAS AS RIO, BARREIRAS, SANTAREM, MANAUS, TERESINA, RECIFE, ARAGUARI, AND RESENDE. THIS COVERS A WIDE CROSS SECTION OF THE BRAZILIAN TERRITORY AND THEREFORE SHOULD CONSTITUTE A FAIR BASIS FOR COMPUTATION. USING A FORMULA BASED ON THE PROCEEDS FROM THAT SALE, THE SCRAP VALUE OF THE \$31M WHICH THE BRAZILIAN ARMY WISHES TO RETAIN WOULD BE \$276K. ALTHOUGH THE USG MAY YET REALIZE ADDITIONAL REVENUE FROM LATER SCRAP SALE OF SOME ITEMS OF THE \$9.1M PREVIOUSLY AUTHORIZED FOR DISPOSAL, IT SHOULD BE NOTED THAT THE VAST MAJORITY OF THE MOST READILY SALABLE AND RECOVERABLE ITEMS-- HEAVY ENGINEER EQUIPMENT AT THE MORE ACCESSIBLE LOCATIONS-- HAS ALREADY BEEN SOLD.

6. WITH THIS FIGURE OF \$276K AS REPRESENTATIVE OF THE
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SCRAP VALUE OF THE \$31M IN QUESTION AND THE SEC DEF GUIDANCE (REF C) WHICH INDICATED THAT THE MINIMUM ACCEPTABLE OFFER IS SCRAP VALUE, IT SEEMED APPARENT THAT THE BRAZILIAN ARMY OFFER OF \$100K AND THE REVISED SCRAP VALUE FIGURE WERE STILL TOO FAR APART TO BE RECONCILED. ACCORDINGLY, ON JUNE 1 ADM JANNUZZI, THE PRESIDENT, JBUSMC WAS ADVISED INFORMALLY THAT THE UNITED STATES COULD NOT ACCEPT LESS THAN SCRAP VALUE FOR REVERSIONARY RIGHTS AND THAT RATHER THAN HAVE

THE MATTER END IN A FORMAL STALEMATE, IT MIGHT BE DESIRABLE TO DROP THE NEGOTIATIONS. IN THIS CASE THE BRAZILIAN ARMY WOULD CONTINUE TO UTILIZE THE EQUIPMENT UNDER THE TERMS OF THE AGREEMENT. (THE NEW EVALUATION OF \$276K WAS NOT MENTIONED.)

7. ON JULY 5 THE BRAZILIAN ARMY MEMBER OF JBUSMC OFFERED, ON BEHALF OF THE ARMY MINISTER, \$300K FOR THE REVERSIONARY RIGHTS TO ALL ARMY EQUIPMENT FURNISHED UNDER MAP-M. HIS LETTER STATES THAT THE OFFER "APPROXIMATES THE VALUE AS ESTIMATED BY THE US DELEGATION; ELIMINATES PROBLEMS RELATED TO THE DISPOSITION OF THE REMAINDER OF THE EXCESS EQUIPMENT WHICH, DUE TO ITS WIDE DISPERSION THROUGHOUT BRAZILIAN TERRITORY, WILL BE OF LITTLE VALUE AND FAR OUT OF PROPORTION TO THE ADMINISTRATIVE COSTS INVOLVED; WILL CORRECT ADMINISTRATIVE DISCREPANCIES RESULTING FROM JOINT ADMINISTRATION OF THE MATERIEL WHICH IS EVIDENT ON BOTH SIDES."

8. THIS OFFER CONCERNS THE BRAZILIAN PURCHASE OF REVERSIONARY RIGHTS TO THE FOLLOWING MAP-M IN BRAZIL WHICH WAS IDENTIFIED IN REF A:

SERVICEABLE AND UNSERVICEABLE/REPAIRABLE	\$31.2M
EQUIPMENT WHICH THE BRAZILIANS WISH TO RETAIN	
UNSERVICEABLE EQUIPMENT AWAITING DISPOSITION	.8
(UNRESOLVED DIFFERENCES IN BRAZIL/US SURVEY	(7.3)
OF ARMY MAP PROVIDED ITEMS)	

9. THE BRAZILIAN OFFER IS QUITE UNEXPECTED BUT IS UNDOUBTEDLY MOTIVATED BY AN APPRECIATION OF THE CONSIDERABLE COSTS AND EFFORT CONNECTED WITH CONTINUED MONITORING AND DISPOSITION OF MAP-M, AS WELL AS THE NEED TO COME UP WITH A REALISTIC OFFER IN TERMS OF THE SCRAP VALUE OF THE EQUIPMENT INVOLVED.
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IT IS RECOMMENDED THAT AUTHORIZATION BE PROVIDED TO ACCEPT THE BRAZILIAN ARMY OFFER.

10. THE NEED FOR BRAZIL TO SEEK USG CLEARANCE PRIOR TO TRANSFER TO THIRD COUNTRIES OF ANY MAP PROVIDED EQUIPMENT HAS BEEN MADE CLEAR REPEATEDLY TO THE BRAZILIANS IN THE VARIOUS MEETINGS ON THIS SUBJECT. US OFFICERS HAVE STRESSED THAT THIS REQUIREMENT NOT ONLY IS CONTAINED IN US LAW BUT IS ALSO A PART OF THE AGREEMENT BETWEEN USG AND GOB. ALTHOUGH BRAZILIAN ARMY NOT PLEASED WITH PROVISION IT WAS ACCEPTED AND ACKNOWLEDGED AS BEING PART OF THE AGREEMENT "BETWEEN OUR TWO GOVERNMENTS." SHOULD WE ACCEPT BRAZILIAN ARMY MINISTER'S JULY 5 OFFER WE WOULD RESPOND FORMALLY BY DIPLOMATIC NOTE. IN THAT NOTE WE WOULD REITERATE THE NEED FOR USG AUTHORIZATION PRIOR TO TRANSFER OF ANY OF THIS

EQUIPMENT TO THIRD COUNTRIES.
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